




Deferred Retirement Option Program (DROP)

Retirement Administration Agency
Fairfax County, Virginia

May 25, 2005



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What is DROP?

- ♦ DROP allows members of Fairfax County Retirement Systems who are eligible for normal service retirement the option to retire for purposes of the retirement plan while remaining actively employed for an additional 3 years
- ♦ Retirement benefits accumulate and earn interest at an annual rate of 5%, compounded monthly during the 3 years
- ♦ DROP participants are treated as active employees for all other purposes (e.g. promotions, raises, and benefits)
- ♦ Employment is terminated at the end of the 3-year DROP period

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How Does DROP Work?

Illustration:

A member must reach the age and/or service requirements specified in the plan (age plus service equal to 80 with a minimum age of 50 or age 65 with at least 5 years of service)

- ♦ **For example:** A normal retirement-eligible member who can retire with a normal retirement benefit of \$3,000 each month, can choose to retire with this benefit amount or choose to participate in DROP
- ♦ If the member elects to participate in DROP, his \$3,000 monthly pension is set aside into a DROP account within the DB plan for three years earning interest
- ♦ The employee continues working

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How Does DROP Work?

(continued)

- ♦ The member continues to work for Fairfax County and receives a salary. Member no longer contributes to retirement plan **nor** does member continue to earn benefit service credit
- ♦ If the member is eligible to receive the Pre-Social Security Benefit for all or part of the DROP period, that amount is part of the amount that goes into the member's DROP account
- ♦ Member makes Joint and Last Survivor election
- ♦ Member **continues to earn** leave at the same rate and continues to receive eligibility service for the purposes of the health subsidy and length of service awards
- ♦ At the end of the DROP period, the member terminates employment and retires

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How Does DROP Work?

(continued)

- ♦ **At retirement (DROP exit)**, the member chooses among five options for their DROP balance
 - ✓ Receive a lump sum distribution of DROP balance by check (remember, this is taxable income)
 - ✓ Roll over entire DROP balance to an IRA or other qualified retirement plan (non-taxable income)
 - ✓ Combine Rollover and Refund
 - ✓ Apply 100% to increase member's annuity
 - ✓ Apply 50% to increase member's annuity and take a 50% distribution
 - 50% distribution can be a combination of rollover and refund in any percentages

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How Does DROP Work?

(Example)

Option #1 – Member doesn't enter DROP (July 2005)

Monthly Annuity at Retirement (June 2008)	=	\$2,403.63
Pre-Social Security Benefit	=	\$1,201.81
Total	=	\$3,605.44

Option #2 – Member enters DROP (July 2005)

Monthly Annuity on Date of Retirement	=	\$2,144.41
Pre-Social Security Benefit	=	\$1,072.19
Total	=	\$3,216.60

Plus lump sum balance (June 2008) = \$124,294.49

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Benefits of DROP

- ♦ Build a lump sum account balance over a period of three years that can be used for a wide variety of purposes
- ♦ The member has **flexibility** and options for distributions
- ♦ Gives member the ability to distribute the DROP lump-sum balance to heirs should the member die while in the program
- ♦ Member can continue to work and earn a salary while building a retirement lump sum nest egg

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Program Eligibility

- ◆ Must be a “normal” (not early) retirement eligible member
- ◆ Employees’ Retirement System members reach normal retirement eligibility when:
 - You are age 65 with 5 or more years of service or
 - At the minimum age of 50 and your age and years of service equals at least 80
- ◆ Sick leave can be used to gain eligibility and/or extra benefit service
 - 172 hours of sick leave = one month of retirement service credit
 - You can convert all of your sick leave balance to service credit or hold back up to 40 hours to begin the DROP period with sick leave

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Program Eligibility *(continued)*

- ◆ DROP entrants must start at the beginning of a new payroll period
- ◆ First DROP entry date for Employees’ Retirement System members is July 9, 2005
 - Applications must be received by June 17
- ◆ Second DROP entry date for ERS is July 23, 2005
 - Applications must be received by July 1
- ◆ For DROP entry after August 1, 2005, DROP applications must be received 60 days prior to program entry
 - For example: Those who want to enter DROP on November 12, 2005, must apply by September 13, 2005

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Other Considerations

- ◆ Once a member enters DROP; the decision is irrevocable. To exit DROP would mean termination of employment
- ◆ Joint & Survivor (spousal) option selection once made cannot be changed
- ◆ DROP has a “sunset” clause – Program ends after June 30, 2010 unless extended by the Board of Supervisors
- ◆ DROP participants receive the same COLAs as retirees. COLAs are added to the DROP account
- ◆ Upon DROP exit, employment ends . . . No exceptions
 - You will be paid monthly benefits directly
 - Lump-sum balance is distributed
 - Withdrawing an application prior to DROP entry will result in the member waiting at least 12 months to reapply

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Other Considerations/ Benefits

- ◆ DROP participants are active employees
 - Contributions to the retirement system cease
 - You **remain** eligible for pay raises
 - You **can** be terminated for cause
 - You continue to have active employee benefits including:
 - Health/Dental
 - 457 Plan
 - Life Insurance
 - Leave Accrual
 - Etc.

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What Happens When I Exit DROP? (Recap)

- ♦ **At retirement**, the member chooses among five options for their DROP balance
 - ✓ Receive a lump sum distribution by check (remember, this is taxable income)
 - ✓ Rollover entire DROP balance to an IRA or other qualified retirement plan (non-taxable income)
 - ✓ Can choose a combination of Rollover/Refund
 - ✓ Can apply 100% to increase your monthly annuity
 - ✓ Can apply 50% to increase your annuity and receive a 50% distribution
 - 50% distribution can be a combination of rollover and refund in any percentages

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Tax Considerations

- ♦ **Lump or Partial Sum Payment**
 - IRS may impose a 10% penalty if you are paid before age 59½
 - Taxed as ordinary income in distribution year
 - Subject to 20% Federal tax withholding
 - Subject to 4% Virginia state tax withholding
- ♦ **Rollover funds to an IRA or other qualified retirement plan**
 - No tax consequences/tax deferred
 - 457 Deferred Compensation Plan does not qualify for rollover
- ♦ **Purchase additional monthly annuity**
 - No immediate tax consequences
 - Increased monthly payments are taxed as ordinary income

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Common Rollover Vehicles Types*

- ♦ IRA – Individual Retirement Account (IRA) Savings Plans– Traditional, Roth, Simplified Employee Pension (SEP) 408(k), and Simple IRA
- ♦ Employer Defined Benefit Plan – 401(a)
- ♦ Employer Defined Contribution Plan – 401(k)
- ♦ Small Business Defined Benefit Plan – 412(i)
- ♦ Teacher's Defined Compensation Plan – 403(b)
- ♦ Government Deferred Compensation Plan – 457
- ♦ Retirement Plan for Self-Employed Individuals – Keogh

*** Check with your retirement plan sponsor to determine if DROP funds qualify for rollover into their account**


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Having trouble with your decision?

- ♦ Visit the Retirement Administration Agency Internet website and:
 - ✓ Do your own estimate at
 - www.fairfaxcounty.gov/retbrd/osregist.htm
 - More DROP info is available at www.fairfaxcounty.gov/retbrd/dropsumemp.htm
- ♦ Make an appointment for counseling if you are currently eligible for normal service retirement
- ♦ Consult a tax advisor
- ♦ Consult a certified financial planner or personal financial advisor
- ♦ Talk with your family members or friends to assist you

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If you've made up your mind
to DROP on
July 9 or 23, 2005

Call 703-279-8200 to sign-up for one of
these DROP counseling sessions

Counseling Sessions:

June 14, 2005 – 1:30 – 3:00pm

June 15, 2005 – 8:30am – 10am

June 17, 2005 – 10am – 11:30am

♦“Walk-in” counseling for DROP is NOT
available

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Questions ? ? ?



Retirement Administration Agency
(703) 279-8200

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